



County of Los Angeles
CHIEF ADMINISTRATIVE OFFICE

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DAVID E. JANSSEN
Chief Administrative Officer

January 6, 2004

To: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Yvonne Brathwaite Burke
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

From: David E. Janssen
Chief Administrative Officer

Board of Supervisors
GLORIA MOLINA
First District

YVONNE BRATHWAITE BURKE
Second District

ZEV YAROSLAVSKY
Third District

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Fourth District

MICHAEL D. ANTONOVICH
Fifth District

STATE LEGISLATIVE UPDATE

At 5:00 p.m. today Governor Arnold Schwarzenegger delivered his first State of the State address to a joint convention of the Legislature. The speech essentially highlighted his major themes and priorities for the first year of his administration. A copy is attached.

The Governor emphasized that improved economic growth and job creation were essential for turning California around and eliminating the State's budget problem. Indeed the Governor designated himself the State's job czar and said he would travel the world over to find jobs for California. The key to success would be a major reform of the workers compensation system and he challenged the Legislature to approve reform by March 1, 2004 or he would put his proposed reform on the November ballot. He also called for improving the state's business climate by addressing the crisis in unemployment compensation and assuring affordable energy for California businesses.

The Governor offered few details on the FY 2004-2005 budget which he will propose on Friday. He did indicate that the projected shortfall is \$15 billion and will require cuts in virtually every area of the State budget. Given the dependence of counties on the State budget, perhaps the most significant part of the Governor's speech were his strong statements opposing tax increases as "the final nail in California's financial coffin" that "will destroy...jobs and revenue."

Other priorities touched on in the Governor's approximately 30 minute speech include his commitment not to reduce education funding (despite reports that K-14 education will receive \$1.5 billion to \$2 billion less under the Governors proposal than current law

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would provide), protect California's environment primarily through environmentally friendly technologies rather than regulation, and radically restructure State government to eliminate waste and fraud. In addition, in his opening remarks and in the tone of his speech, the Governor emphasized that bipartisan cooperation and compromise were essential.

In the Democratic response, Senate President pro Tempore John Burton and Speaker Herb Wesson indicated that while significant budget reductions will be necessary to close the budget gap, they intend to protect the poor, the elderly, the blind and the disabled. In particular, they stressed that additional revenue, i.e., a tax increase, would also be necessary.

DEJ:GK:MAL
JR:hg

Attachment

c: Executive Officer, Board of Supervisors
County Counsel
All Departments

ATTACHMENT
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State of the State Address

Governor Arnold Schwarzenegger

January 6, 2004

Lieutenant Governor Bustamante, Speaker Herb Wesson, President Pro Tem John Burton, Senate Republican Leader Jim Brulte, Assembly Republican Leader Kevin McCarthy, Speaker Designate Fabian Nunez, Distinguished Members of the Legislature, Chief Justice of California Ron George and Associate Justices, Members of the Board of Equalization, my fellow Constitutional Officers, esteemed Cabinet Secretaries, friends, my fellow Californians, and last but not least, the First Lady, my partner, and the love of my life, Maria Shriver.

People have said to me, "Arnold, isn't it a terrible burden being governor at a time of such crisis?"

I tell them, no, not at all. I love working for the people of California. It is better than being a movie star. It gives me great joy and satisfaction. I am honored to do this work for the people.

I am optimistic about our state.

The state of our state will soon be strong... because our people and our purpose are strong.

We have a new spirit, a new confidence. We have a new common cause in restoring California to greatness.

I saw greatness achieved only three days ago, when the rover "Spirit" landed on Mars. I want to congratulate the many talented scientists at NASA's Jet Propulsion Laboratory in Pasadena, California, who have demonstrated once again that we here in California are the launching pad for the extraordinary.

Now let us do the extraordinary.

Tonight I will talk about the progress we've made, the problems we have yet to overcome, and the path we will follow to overcome them.

I have no doubt that, together, Californians are more than a match for the challenges we face.

I feel good because I believe we have made progress in rebuilding the people's trust in their government.

The first thing I did as governor was to repeal the tripling of the car tax.

This massive tax increase was a desperate act of a government out of control.

That could not be allowed to stand.

Repealing that illegal tax increase was the right thing to do.

During the campaign I promised that cities and counties would not bear the cost of the repeal.

It would be irresponsible of the state to take that money away from counties and cities.

That is why I acted to keep the money flowing for firefighters and police.

They did not raise the car tax, and they should not bear the burden of its rollback.

Together, we in this chamber repealed SB 60, which endangered the very integrity of the California driver's license.

Rescinding that law was the right thing to do. And I thank you for your bipartisan support.

Together, we put measures on the March ballot that, if passed by the people, will save our state from a June bankruptcy.

June is the month when billions of dollars in past loans come due and the financial house of cards built over the last half decade is set to collapse.

When individuals overspend themselves into trouble, financial counselors often tell them to consolidate their credit card balances so they can work their way out of trouble - and also tear up their credit cards.

That is what our California Recovery Plan is all about.

We took the debt we inherited from the previous administration, the debt that threatens us with bankruptcy, and we rolled it into a 15 billion dollar recovery bond.

Then we tore up the credit card.

We passed a balanced budget amendment.

And we created a rainy day fund for future hard times and emergencies.

Never again will government be allowed to spend money it doesn't have.

Never again will the state be allowed to borrow money to pay its operating expenses.

You in this room have done that for the people of California.

The fact of the matter is that we do not have a tax crisis; we do not have a budget crisis; we have a spending crisis.

We cannot tax our way out of this problem. More taxes will destroy what we're trying to save - jobs and revenue.

Jobs bring revenue to the state, and revenue allows us to do the right things for education, for the environment, for the disabled, the elderly and all those in need.

A tax increase would be the final nail in California's financial coffin.

The people of California did not elect me to destroy jobs and businesses by raising taxes.

I will not make matters worse.

We have no choice but to cut spending, which is what caused the crisis in the first place.

These are cuts that will challenge us all.

But we cannot give what we do not have.

If we continue spending and don't make cuts, California will be bankrupt.

And a bankrupt California cannot provide services to anyone.

Members of the Legislature, you will receive my proposals in the days ahead.

These are proposals that leadership requires, economics demands, and the public expects.

These cuts will not be easy but they will not be forever.

Let us move quickly to put the excesses of the past behind us and get on with the promise that beckons before us.

I would like to thank all those in the labor community who are working with us to do just that.

I would like to thank those in the education community who are working with us to allow the state to save money while still increasing per pupil funding.

Everyone must play a part in this.

I respect the sovereignty of our Native American tribes, and I believe they also respect the economic situation that California faces. In the next couple of days, I will announce our negotiator who will work with the gaming tribes, so that California receives its fair share of gaming revenues.

Every cloud has a silver lining. The good news is that the spending crisis forces us to bring badly needed reform to government.

Although the transition will be difficult, in the end we will have a leaner, more efficient and more responsive state government.

A necessary place to start is education.

We must make better use of the money we spend on schools.

My proposal gets more money into the classroom and thus increases per pupil funding.

First, we must give local schools the power to meet the specific needs of their own communities.

We can do this by consolidating two billion dollars of categorical programs and cutting the strings to Sacramento.

This will give schools the freedom to spend the money as they - not Sacramento - best see fit to serve the children.

Second, school districts are forced to spend on average 10 to 40 percent more than necessary on non-classroom services.

We must give local schools the freedom to be cost efficient.

One way to do this is to repeal SB 1419, the law that prevents schools from contracting out services such as busing and maintenance.

This will free up more money for textbooks and other vital classroom needs.

In the last two years, college fees have increased over 40 percent.

We must end the boom-and-bust cycle of widely fluctuating fees with a predictable, capped fee policy for college students and their parents.

And we must limit fee increases to no more than ten percent a year.

Like our K through 12 schools, our colleges and universities must also share the burden of the fiscal crisis, but we must work to expand the dream of college.

And we must not let the dream bypass our Central Valley.

That is why my budget will fund UC's tenth campus - UC Merced.

We cannot afford waste and fraud in any department or agency.

Every governor proposes moving boxes around to reorganize government.

I don't want to move the boxes around; I want to blow them up.

The Executive Branch of this government is a mastodon frozen in time and about as responsive.

This is not the fault of our public servants but of the system.

We have multiple departments with overlapping responsibilities. I say consolidate them.

We have boards and commissions that serve no pressing public need. I say abolish them.

We have a state purchasing program that is archaic and expensive. I say modernize it.

I plan a total review of government - its performance, its practices, its cost.

Some of the recommended actions, I will make by executive order. Some will require legislation. And some will need constitutional change.

I want your ideas and the more radical the better.

And to California's state employees, I want to thank you for your hard work under trying circumstances.

I also want your ideas, because I want to give you freedom to do your jobs in creative ways.

Now, in addition to restoring our state's finances and responsiveness, we must restore the state's business climate.

Creating and retaining jobs - and the businesses that provide them - must be a priority of this Legislature.

Jobs provide a solid foundation for families.

Jobs add revenues to the state budget.

Jobs give stability to our society.

Jobs. Jobs. Jobs.

The more jobs the better.

I am going to become California's Job Czar.

I'm going to travel the nation and the world to find those jobs.

I'm going to say, "Come to California. Come do business here. Buy our fantastic products. Visit our special attractions. Hire our workers, who are the most productive in the world."

I am a salesman by nature. And now most of my energies will go to selling California, and California is the easiest sell I've ever had.

But we have to fix the state's business climate. And we must start with workers' compensation reform.

Our workers' comp costs are the highest in the nation - nearly twice the national average.

California employers are bleeding red ink from the workers' comp system.

Our high costs are driving away jobs and businesses.

My proposal brings California's workers' comp standards and costs in line with the rest of the country.

To heal injured workers, it emphasizes the importance of health care and doctors rather than attorneys and judges.

It requires nationally recognized guidelines for permanent disability.

And it provides for innovative approaches.

I call on the Legislature to deliver real workers' comp reform to my desk by March 1st. Modest reform is not enough.

If modest reform is all that lands on my desk, I am prepared to take my workers' comp solution to the people. It will be on the November ballot.

This year we also have the highest unemployment insurance costs in the nation. Our system is flat broke.

So that people could get their checks, last month I had to ask Washington for a billion dollar loan to bail us out.

Unemployment checks are an important safety net.

We must fix the system, and I need your help.

California's approach to energy is another barrier to jobs and economic growth.

We have a flawed regulatory structure.

Our businesses pay energy rates nearly twice as high as those in other western states.

In California, we have thirteen different state energy agencies.

Something is wrong when it's easier to create energy agencies than power plants.

California's energy crisis is not over.

If we do not act now, California will face energy shortages as early as 2006.

To prevent this, we must reform the wholesale power market to attract new energy investment.

We must reform the retail market so large customers can get competitive prices.

And we must renegotiate those high-priced electricity contracts that locked us into energy prices at the market's peak.

Closely connected to energy is the environment.

And while we are promoting jobs, promoting California, I am also going to promote our commitment to the environment.

I am going to encourage the building of a hydrogen highway to take us to the environmental future.

I am going to encourage builders to build homes using partial solar power.

I am going to create a Green Bank to make loans to retrofit old, energy-inefficient buildings.

I intend to show the world that economic growth and the environment can coexist.

And if you want to see it, come to California.

During the campaign, I said that I would make sure that California got its fair share of federal tax dollars.

The congressional delegations of other states work together to bring home federal dollars, but the divisions in California have been too deep to do that effectively.

In December, however, we held a historic meeting in Palm Springs.

At a bipartisan retreat, the California congressional delegation and I agreed to put party and district boundaries aside and speak with one united voice in Washington.

We agreed to fight side-by-side to get more federal tax money for homeland security, criminal aliens, water resources, highways, and other needs.

Let me tell you another area where we must cooperate.

California's naval facilities, our air bases, our supply centers, our training commands have helped our nation produce the best trained and equipped military in the world.

I was in Baghdad last year. I met soldiers who call California home. I met soldiers who trained here and served here.

California has a proud history of military support.

The Pentagon will make the next round of base closures in 2005. This could mean thousands of lost jobs to California.

These bases are important to the national defense, and they are important to our steady economic recovery.

As a state, we will fight to keep our bases open.

We Californians need to work together at all levels of government. In the days and weeks ahead we have decisions

coming at us that are the most difficult any legislator or governor has faced in the history of our state.

We have decisions approaching that will inflame passions and potentially create division.

I want to tell you a true story that relates to this.

During the terrible fires that burned California, I went to the funeral of Steven Rucker, the firefighter who died in the service of his fellow citizens.

He left behind a wonderful wife, two children and heartbroken parents.

After the service, I said to Steven's mother and father, "If there is anything I can do for you, please let me know."

His father looked at me for a few seconds... and in his grief with tears in his eyes he said, "Arnold, if you really want to do something in honor of my son, go to Sacramento and stop the politicians from fighting. Stop the fighting. It's hurting the people and destroying our state."

Ladies and gentlemen, let us remember those words in the days and weeks ahead.

Let us remember the greater good of California.

I remain a great believer in the future of this state.

I did not seek this job to cut... but to build.

I did not seek this job to preside over the decline of a dream but to renew it.

President Reagan said that empires were once defined by land mass, subjugated peoples, and military might.

But America, he said, is "an empire of ideals."

California, I believe, is an empire of hope and aspiration.

Never in history have such big dreams come together in one place.

Never in history has such an array of talent and technology converged at one time.

Never in history has such a free and diverse community of people lived and worked under one political system.

This is a wonderful place - California - this empire of aspirations.

Great things can be done in California.

Ladies and gentlemen, let us help Californians do great things.

Thank you very much.